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Congressional Research Service
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Washington, D.C. 20540

# INTERIM ESTIMATES OF COSTS FOR SELECTED PROVISIONS ALTERNATIVE TO ONES IN S. 1527

There are several distinct areas in which possible adjustments to the S. 1527 design can be identified clearly. This report briefly describes major alternatives within each of these areas, and provides a preliminary estimate of the incremental effect of each alternative on total government cost.

Each incremental cost estimate is presented as an absolute percentage of Federal payroll, to be added to or subtracted from the estimated S. 1527 government cost of 20.8 percent of payroll. Each estimate reflects what would happen if that particular change were implemented, and the rest of S. 1527 remained in force. Note that the cost effects of various combinations of alternatives cannot be determined simply by adding together the cost effect of each component. There are often interactive effects when multiple changes are introduced together, and the development and pricing of specific combinations will require further consultation.

## AREA 1: THE DEFINED-BENEFIT ACCRUAL RATE

S. 1527 establishes a 1.0 percent benefit accrual rate for each year of Federal service. The following increases in the accrual rate yield the indicated increases in cost:

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| | | |
|---|---|---|
| 1-A | 1.05% | +0.6% |
| 1-B | 1.10 | +1.2 |
| 1-C | 1.15 | +1.8 |
| 1-D | 1.20 | +2.3 |
| 1-E | 1.25 | +3.0 |

**AREA 2: COST-OF-LIVING ADJUSTMENTS (COLAs)**

S. 1527 provides for a COLA equal to the annual increase in the Consumer Price Index (CPI), minus 2 percent. The following changes to the COLA provision produce the indicated increase in cost.

| | | |
|---|---|---|
| 2-A | Full COLA | +3.0% |
| 2-B | Full COLA after age 62, with a "diet COLA" (50% of CPI, or CPI minus 2%) before age 62 | +2.5 |
| 2-C | A full COLA provided every other year ("catch-up COLA") | +2.7 |
| | 60% COLA | + .4 or .5 |
| | 75% | +1.4 |
| | No Cola | -2.4% |

[illegible] 60 to 70 [illegible]

**AREA 3: EARLY RETIREMENT REDUCTIONS**

S. 1527 reduces the benefit by 2 percent for each year before age 62. For example, a benefit payable at age 55 with 30 yrs would be reduced by 14 percent. Eliminating or halving this reduction would increase cost as follows:

| | | |
|---|---|---|
| 3-A | no reduction | +0.5% |
| 3-B | reduction of 1% for each year before age 62 | +0.2 |

55-16 · still 5% reduction per year under 62

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**AREA 4: SALARY BASE FOR DETERMINING BENEFITS**

S. 1527 establishes a salary base for benefit computation of the highest five consecutive years. Changing that provision to the highest three consecutive years would increase total cost as indicated:

| | | |
|---|---|---|
| 4-A | highest 3 consecutive years | +0.9% |

Hi five cuts benefits by 7%.

S Si 5.7% of payroll

**AREA 5: EMPLOYEE CONTRIBUTIONS**

The defined benefit portion of S. 1527 is non-contributory for employees. There are different levels and structures of employee contributions that could be introduced. The following is the cost effect of the most frequenstly mentioned alternative:

| | | |
|---|---|---|
| 5-A | Level contributions: employee contributes 7% of pay minus the amount paid to social security | -1.1% |

**AREA 6: DEFERRED BENEFITS**

S. 1527 pays an unindexed deferred benefit to all vested employees. Because there are no employee contributions, there are no forfeitures of deferred benefits through refunds of contributions. The cost of indexing deferred benefit entitlements is:

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| | | |
|---|---|---|
| 6-A | index deferred benefits by full CPI over the period between separation and payment | +0.6% |

## AREA 7: DISABILITY BENEFITS

S. 1527 provides a 60 percent of pay long-term-disability (LTD) benefit, offset by social security benefits. The LTD benefits, along with the projected retirement benefit, are indexed by CPI minus 2 percent. There are a variety of possible changes that could be made in the disability area. The most expensive would involved the fullest possible indexing of the LTD and projected retirement benefits.

| | | |
|---|---|---|
| 7-A | LTD and projected retirement benefits indexed by Federal pay increases | +0.6% |

## AREA 8: SURVIVOR BENEFITS

S. 1527 provides the ERISA minimum preretirement survivor benefit, and a postretirement survivor benefit equal to 50 percent of the actuarially reduced benefit. The cost effects of an "upper-bound" survivor package, and its two main features, are:

| | | |
|---|---|---|
| 8-A | Preretirement survivor benefit payable immediately; postretirement benefit with a 10% reduction applied only during life of eligible spouse, and surviving spouse receives 50% of the unreduced benefit | +0.3% |

Immediate only ~~est.~~ + 0.1%

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## AREA 9: CAPITAL ACCUMULATION PLAN

S. 1527 provides a tax-deferred 401(k) plan with a government match of 100 percent on employee contributions of up to 5 percent of pay. There is a wide range of alternative designs available in this area. Three are specified here:

| | | |
|---|---|---|
| Typical private → 9-A | 50% match on contributions up to 6% | -1.6% |
| 9-B | 100% match on contributions up to 3% | -1.1 |
| 9-C | Government contributes 2% for all employees, employee contributions optional | -1.0 |
| 9 D | 100% up to 2% | -1.6 |
| 9 E | 50% to 3% | -2.0 |

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July 31, 1985

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